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SUBJECT: CODEL HAGEL WHIRLWIND TOUR OF PANAMA

REF: PANAMA 682

Classified by: POULCONS BRIAN R. NARANJO FOR REASONS 1.4 (B) AND (D)

SUMMARY

11. (U) CODEL Hagel met in Panama on August 28 with President Martin Torrijos to discuss the strong bilateral relationship and Panama's economic future. In a meeting with Vice-president and Foreign Minister Samuel Lewis, CODEL Hagel discussed the Trade Promotion Agreement (TPA) and the Panama Canal widening project. Foreign investment and the need for qualified workers were the topics of discussion between Minister of Commerce and Industry Carmen Gisela Vergara and the CODEL. Senator Hagel and the CODEL received a briefing on the Panama Canal and discussed the widening project further with Minister for Canal Affairs and Secretary of Energy Dani Kuzniecky and Panama Canal Administrator Alberto Aleman. Finally, CODEL Hagel had lunch with representatives of the U.S. Chamber of Commerce, who discussed the business climate, the tourism boom and the need for qualified technical labor.

Pres. Torrijos: New Stage in Bilateral Relationship

12. (C) The U.S.-Panama bilateral relationship "is on a great trajectory," Panamanian President Martin Torrijos told Senator Hagel at the opening of their meeting. Reaching out to the Senator on short notice, Torrijos invited Senator Hagel to meet with him in a previously unplanned meeting. "We are entering a new stage of our bilateral relationship," Torrijos explained. Not only had the Trade Promotion Agreement (TPA) been signed last year, but the Panama Canal expansion project, for example, would draw the U.S. and Panama closer together in a strategic relationship, the President said. The expansion project would double the capacity of the canal and was already forcing U.S. East Coast ports to begin working to upgrade their facilities to accommodate not only higher volume, but also the larger ships that would now be able to transit the canal. Panama was essentially "the maritime frontier of the U.S.," an aspect of the relationship that the President said needed to be explored further. "I am confident," Torrijos said, "that we will leave the country on a good path for development."

Noting that he had recently met with Colombian President Alvaro Uribe who had made "great advances against the FARC," Torrijos acknowledged the importance, as noted by Senator Hagel, of working together regionally to deal with challenges and to foster greater cooperation.

13. (C) Torrijos agreed with Senator Hagel that Singapore's experience offered an example of development from which Panama could draw. Singapore itself was investing in Panama, Torrijos noted. For example, he pointed to the establishment of a Singaporean companies airplane maintenance and flight simulator training facilities as examples of where Panama was able to leverage its geographic location to launch new economic initiatives. This Singaporean airplane maintenance center could serve as a repair facility for aircraft from across the hemisphere, Torrijos explained. Furthermore, Panama was striving to become an energy hub by refurbishing a trans-isthmian pipeline, moving ahead on an Occidental Petroleum-Qatar Oil joint venture to build refinery in Panama, and connecting Panama's electric grid not only with Central America, but also with Colombia. He added that Panama had much to learn from Singapore's success at making itself a world class logistics platform.

14. (C) "We have changed the structure of our security forces," the President told Senator Hagel, "to be able to meet challenges to our security." Torrijos explained that he had enacted laws to establish: an independent frontier force (SENAFRONT), a coast guard or rather aero-naval service (SENAN), and a civilian intelligence service (SENIS). Also the law had been amended to enable him to name a uniformed police officer to lead the Panamanian National Police (PNP). "Some say unfairly that I am trying to re-militarize," Torrijos stated. "I am trying to update the security forces. We did it fast and with limited time for debate. There are some people who simply cannot be convinced on the need to make these changes, but the past cannot hinder us from meeting the future." By setting up an intelligence service, Torrijos asserted that he was trying to give the existing service that operated in a gray area a legal framework. "We know that the FARC is preparing to conduct operations in Panama and that they have done so in the past. If given the opportunity, criminal organization will shift their presence to Panamanian territory if they were given the opportunity," Torrijos said. "We need to be prepared to stop that."

15. (C) Answering the Senator's question, Torrijos said that in his post-presidency that he would like to help develop new leaders in the region. "I would like to create a knowledge bank that can serve as a resource for up-and-coming leaders," the President said. Working with former Chilean President Lagos and former Brazilian President Cardozo and the Ibero-American Summit, Torrijos hoped to contribute to efforts to create a public policy school for the hemisphere. "We share a lot of the same problems in Latin America," he said, "and we should be able to share experiences for what works."

Meeting with First VP and FM Samuel Lewis

16. (C) "I am very grateful for your efforts over the last few years to support Panama's free trade agreement with the U.S.," First VP and FM Samuel Lewis told Senator Hagel. As would the pending Trade Promotion Agreement (TPA), Lewis also commented that Panama's "ambitious" canal expansion program would "contribute to an ever strengthening relationship with the U.S." Regarding the TPA, Lewis expressed his hope that the TPA would "get unstuck" and help contribute to "our evolving and strengthening relationship." Senator Hagel stated that he thought it was unlikely that the U.S.-Panama TPA would be acted on in September before Congress went out of session before the U.S. elections, but the Senator said it might be possible to take up the treaty in a post-election lame duck session. Lewis noted that President Torrijos would be in Washington September 16 and 17 to "raise the profile" of the TPA and would meet with President Bush, Members of Congress, and others. Senator Hagel encouraged Lewis to make

the most of this trip and underscored that he remained a strong advocate that this treaty "needed to get done."

17. (C) Noting that the Panama TPA would be considered after the Colombia TPA, Lewis said, "We need to consider the Colombia and Panama trade agreements in light of both countries strategic relationships with the U.S. While the agreement with Panama did not face opposition, we trail the Colombia agreement that does face opposition. The issue then becomes how do we break that obstacle and get over that hurdle" should the Colombia agreement face the prospect of not garnering sufficient votes. "President Torrijos is going to make a plea to President Bush that, though we want to see Colombia go through, if both treaties cannot get through, we should consider getting one (i.e., Panama) through." Senator Hagel cautioned Lewis to be careful not to encourage too publicly this kind of approach as it would open up new kinds of political competition. "I think we can get both agreements done and can sell them on a strategic basis," Senator Hagel assured.

18. (C) Turning to the Panama Canal, Lewis said, "At first, Panama needed to overcome the idea that Panama would not be able to run the canal, a perception held by many both in the U.S. and Panama." Since 1999 when the canal was handed over to Panama, Lewis said that Panama had demonstrated that it could do an excellent job running the canal. The next challenge was how to keep the canal up to date as trade volumes increased and the size of ships grew. Therefore, Lewis explained, Panama put together a program to maximize the public benefit and mitigate the negative effects of expanding the canal while putting it on a firm financial footing. "Ultimately, running the canal is all about water management," Lewis said, explaining that Panama would incorporate water recycling technology on its largest scale ever. "We won approval via referendum to implement a USD 5.25 billion expansion project that would double the canal's volume by the 2014 completion date of the project and enable it to handle larger ships. "This expansion will drive other developments in logistics, finance, trade, and manufacturing," Lewis asserted. Contracts for dry excavation, dredging, and engineering management had already been awarded, Lewis said. The big contract though would be for the design/build of the locks. Four consortia had been short-listed to participate in the tender process, one of which was lead by the U.S. firm Bechtel. "Ideally, tenders will be due in December, though that may slip to January," Lewis said. The goal was to inaugurate the canal expansion project on August 15, 2014, the 100th anniversary of the original opening of the canal.

19. (C) "Last year Panama grew at 11.2 percent, and we expect to close this year at 8.5 percent growth," Lewis said. "One of the highest growth rates in the Americas." Sustainable over time, this growth, Lewis said, would enable Panama to focus on necessary social investment. "We have only 3.25 million people. Investment to address social problems can see a big difference over a short period of time," Lewis explained.

Meeting with Minister of Commerce and Industry

10. (C) "Foreign investment is the key to Panama's economic development; it spins off promising economic activity," Minister of Commerce and Industry (MICI) Carmen Gisela Vergara told the Senator. As an example, she emphasized that a film law passed this year to create incentives for production in Panama. She added that the latest Bond movie was filmed in Panama, and 12 other productions were underway. Minister Vergara also mentioned Law 41, the 2007 Regional Headquarters law, to encourage companies to establish regional headquarters in Panama to order to enhance employment opportunities. She listed companies that have established regional headquarters in Panama including Hewlett-Packard, Proctor & Gamble, Caterpillar, and 3M. In the last year of the Torrijos

Administration, Vergara said the GOP hoped to close several big investment projects including an Occidental/Qatar refinery, an energy park in Colon, and the Ports America-Cosco megaport on the Pacific side. She touted growth in tourism, noting Panama's 95 percent hotel occupancy year-round.

¶11. (C) "Everyday in the paper you see employment opportunities, but people don't have jobs because they are not qualified," Vergara stated in addressing the difficulty of foreign companies in finding qualified workers. Panama's unemployment rate was 6.4% in 2008, a large decrease from the 2004 rate of 14%. Income disparity continued to be a challenge, but it should be addressed with market solutions, according to Vergara. "This is exactly what the government is doing," stressed Vergara, in creating the National Institute for Workforce Development (INADEH) that works with companies to solicit their expectations for future human resources needs and then works to meet that demand. Continuing to discuss GOP remedies for income inequality, Vergara noted the Network of Opportunities program which provides a USD 50 subsidy to families, in exchange for meeting certain health and educational goals, and the GOP's deep subsidization of gas and electricity. Tax law changes implemented at the beginning of the Torrijos administration widened the tax base, focused on collection, and therefore enabled more robust funding of social programs, she concluded.

Meeting with Panama Canal Authority

¶12. (C) The expansion project was going well and attracting world-wide attention, according to Minister of Canal Affairs Dani Kuzniecky. Kuzniecky is Chairman of the Board of the Panama Canal Authority (ACP) and the GOP's Secretary of Energy. He briefed the CODEL with a powerpoint presentation on the 4-phase canal expansion project and explained its open and transparent bidding process that involves clear communication with each team of bidders about the rules of the process (such as the number of points awarded for certain technical performance specifications) and constant updates for all teams on issues of concern raised by any of the teams to avoid future problems. Bidders would submit their proposal in a package and their price in an envelope that would be stored in a bank in Panama. The envelopes would be opened in a public forum, and the contract would be awarded to the company that scored highest by combining the technical points with points awarded for price. As the companies would be spending USD 15-20 million to develop bids, the ACP sought to ensure that bidders felt the process was transparent and open, according to Kuzniecky. The ACP would give each losing company a USD 3 million stipend to offset their losses. All contracts should be in place by 2009. The third set of locks would double the canal's capacity enabling it to handle twice as many ships and will allow larger individual ships to transit. The U.S., the source or destination of 70% of canal trade, would directly benefit from this increase in capacity and ability, Kuzniecky asserted. Panama's energy mix was 60% hydroelectric and 40% thermoelectric, Kuzniecky replied to a question by Senator Hagel.

AmCham luncheon

¶13. (C) American businesses were very enthusiastic about Panama, but recognized there were challenges, according to a representative of the American Chamber of Commerce at a lunch meeting with CODEL Hagel. In attendance were Don Elder, Panama Project Manager of Caterpillar, Inc; Joseph Cazares, Vice President, CH2MHill Panama - the project management firm that is advising the ACP on the canal expansion project; Thomas Kenna, President of the Panama Canal Railway Company (a joint venture of Kansas City Southern and Mi-Jack Products, Inc.); Anette Cardenas, Marriot Hotels; Glen Champion, Vice President, Bern Hotels and Resorts; David Hunt, Executive Director, American Chamber of Commerce and

Industry of Panama; and Robert Banker, Vice President, Association of American Chambers of Commerce. Champion stated that the TPA would provide the perception of stability that was vital in Panama's small economy. Several other representatives echoed this view. Kenna, Elder, and Cardenas also said that their respective companies would be focusing heavily on lobbying during President Torrijos' upcoming visit to the U.S.

¶14. (C) Panama had been transformed since 2000 in terms of corruption, according to Kenna. The Panama Canal Railway Company was "very bullish" with respect to both the maritime and the tourist industries of Panama. Elder of Caterpillar agreed with this positive assessment, but also noted ongoing challenges, such as the difficulty in securing land titles. The canal expansion project had been very transparent and open, according to Cazares of CH2MHill, with the greatest challenge being the politicization of decisions slowing the process. A deficit of engineers and highly trained construction professionals was expected during the peak of the project (around 2011), when the project would demand more than 12,000 employees in the middle of a construction boom. Difficulties in finding qualified labor continued, according to the participants, except for Caterpillar, that was not reliant on large numbers of employees and would have the capacity to train its staff a part of the center's main core business in Panama. A hotel and tourism boom had taken place and capital was readily available for hotel construction.

¶15. (U) CODEL Hagel cleared this cable.
STEPHENSON